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SPECIAL ANALYSIS

EASTERN EUROPE: Economic Growth Hits New Low

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The economic difficulties that began in Eastern Europe in the late 1970s are continuing, with the annual rate of growth down to about 0.5 percent last year, the lowest in the postwar period. Poland's economy did the worst, with overall economic activity falling sharply as a result of labor unrest, a poor harvest, and the general breakdown in political and economic leadership. Hungary, Bulgaria, and Romania also did poorly, while Czechoslovakia and East Germany managed to increase their rates of growth, but only slightly. The results of last year point to a deepening in the economic malaise that grips most East European countries, and consumer welfare is likely to suffer, further aggravating internal political strains. [redacted]

Through the 1960s, East European economies expanded at rates that were unimpressive compared with those of the USSR and the countries belonging to the Organization of Economic Cooperation and Development. In the early 1970s, growth speeded up when most countries began to borrow in the West to finance ambitious investment programs and made minor adjustments in outdated systems of economic management. [redacted]

By the late 1970s, however, every East European country had to restrict its trade with the West to some degree, as oil price increases caused inflation in the prices of their imports and as recession in the West curbed East European exports. Efforts at economic modernization programs failed to raise productivity substantially, while shortages of consumer goods and services caused discontent. [redacted]

Balance-of-Payments Difficulties

Faced with accumulating hard currency debts, most East European countries have tried for some years to increase exports to the West while restraining purchases

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of Western goods. Poland's deteriorating position was especially troublesome to East European governments and to the USSR because of its implications for the country's internal stability and for Western willingness to lend to Eastern Europe. In the last few years Bulgaria, Czechoslovakia, and Hungary have managed to stabilize their debt positions, but East Germany, Romania, and Poland have fallen far short of balancing their hard currency current accounts. [redacted]

The chances of arresting the economic slide in Eastern Europe in the next few years are slight. The forces depressing growth and causing balance-of-payments difficulties in the late 1970s are, if anything, growing stronger. [redacted]

The USSR's domestic problems will prevent it from increasing deliveries of energy and raw materials at past rates. Eastern Europe will have to turn to the West for such imports and pay higher prices in the process. [redacted]

Sluggish economic performance in the West will keep the East European governments from appreciably increasing the volume of exports to hard currency countries. The USSR probably will demand large quantities of East European goods that otherwise might be sold in the West. [redacted]

Domestic Constraints

Domestic problems also will impede the East European economies. In all of the countries except Romania, the increase in the working-age population will tail off from 1981 through 1985. East European governments, discouraged by the results of high investment rates and prompted by competing consumer demands, are restraining investment, and the stock of plant and equipment will increase at a slower rate. [redacted]

Most important, productivity was unimpressive through the 1970s and shows no sign of recovering in the 1980s. Stagnating consumption levels will tend to discourage labor from working harder, while reduced imports of Western machinery will make technical progress more difficult. [redacted]

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The Polish Example

The turmoil in Poland has underscored the dilemma East European governments face in trying to avoid any increase in hard currency debt while seeking some improvement in consumption. Plans for 1981 through 1985 are being revised and delayed, as all of the countries measure the implications of the Polish events. [redacted]

Some leaders believe that the reduced goals already announced are too optimistic. At a meeting in Prague in early December, for example, East German Premier Stoph reportedly stated that East German national income would rise only 1.5 to 2.0 percent in 1981; Czechoslovak Premier Strougal said he did not expect his country's economy to grow at all. Two weeks later, East Berlin and Prague announced national income growth targets of 5.0 and 2.8 percent, respectively. [redacted]

In a departure from previous practice, East Germany evidently will not issue detailed directives for the 1981 through 1985 plan period at its coming party congress--a reflection of the uncertainties and strains that economy faces. [redacted]

The unrest in Poland, however, has darkened economic prospects in the rest of Eastern Europe. The other Warsaw Pact partners are being pressed by the USSR to aid Poland, and Moscow also may divert energy and other exports originally intended for other East European countries to Poland. Meanwhile, because economic reforms that might make a difference require austerity and painful readjustments, they have been watered down or delayed, except in Hungary. [redacted]

Because the forces limiting economic growth in Eastern Europe are so pervasive, living conditions will not improve much and may at times decline. Consumer expectations of continued improvement in living standards will not be met. Even if discontent does not turn into Polish-style unrest, the economic irritants that helped to foment the conflict between the workers and the regime in Poland will be increasingly evident in other East European countries. [redacted]